

March 14, 2003

To: Mayor Ardeell Brede
Council Members
Stevan Kvenvold

From: Linda Gilsrud, HR

The cost of providing health care coverage for employees is a concern for many, if not all employers, including the City of Rochester. The newspaper, television, and radio are constantly airing reports decrying double digit annual increases in the cost of providing employee health coverage.

The media cites three main reasons why the employer cost of providing health care coverage is increasing:

- The working population is aging
- Medical technology and equipment that health care institutions must utilize is very expensive
- Prescription drugs are increasingly more costly

During the City's last health coverage plan year (9/1/01 – 8/31/02) pharmacy benefits paid out equaled \$731,687. The employee portion of pharmacy costs under the plan was approximately \$33,000 in deductible and \$139,000 in coinsurance. The City's portion was \$559,000 or 76% of the total cost for more than 12,000 prescriptions.

In order to impact prescription drug cost covered under the City's self-insured plan, Finance and HR staff sought a way to better manage prescription costs while continuing to provide good coverage for employees.

We recommend the utilization of a prescription or pharmacy card to assist in meeting the following objectives identified by Finance and HR staff:

- **Seeking a pharmacy benefit plan design which is cost neutral for the City and employees**
- **Encouraging employees to choose generic or mail order options when appropriate for their health** Many employers are asking their employees to make the best consumer decision possible when filling prescriptions. Med Impact, the PBM (pharmacy benefit manager) the City will be using offers savings on dispensing fees and discounts on prescription drugs which are even more substantial when the employee chooses a generic equivalent or uses the mail order option that will become available.
- **Greater convenience** The card allows the employee and covered dependents to fill and obtain their prescriptions by only having to pay applicable deductible and co pay or coinsurance at the drug store.
- **Improved tracking and reporting of drug costs to further enhance drug benefit design in coming years**

